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TAGS: [PGOV](#) [PREL](#) [ECON](#) [AR](#)
SUBJECT: ARGENTINA: CABINET RESHUFFLE- THE MORE THINGS
CHANGE THE MORE THEY STAY THE SAME

REF: A. BUENOS AIRES 01009
[1](#)B. BUENOS AIRES 0994

Classified By: Classified By: Ambassador E. Anthony Wayne for reasons 1
.4 (b) & (d).

[1](#)1. (C) Summary: Argentine media and commentators are interpreting Cabinet Chief Alberto Fernandez's (AF) departure on July 23 as an indication that President Cristina Fernandez de Kirchner's (CFK) administration will not be changing its hardline policy tactics. Left-of-center Critica ran a full-page article on the reported reasons for AF's departure, including his frustration with the First Couple's inability "to read and act on" events; the article rings true to AF's comments that we have heard. Critica quoted AF as saying that he hoped his resignation would bring about other cabinet changes, but so far this has not panned out. Most of the local press and many commentators are touting AF's departure as a victory for hawks in the Kirchner administration, such as AF's longtime rival Minister of Planning Julio De Vido. With AF's departure, the roles of economic interventionists like former president Nestor Kirchner (NK), De Vido and Commerce Secretary Moreno will grow more influential. Wall Street and local analysts share this view, observing that AF's resignation does not likely signal a change in the Kirchners' penchant for heterodox economic policy and closed management style. This has dampened Wall Street's and local economists' forecasts for Argentina in the medium term. End Summary.

Why the Cabinet Chief Called it Quits

[1](#)2. (C) In a full-page spread, left-of-center Critica on July 24 detailed Cabinet Chief Alberto Fernandez's (AF) reasons for his resignation as reportedly relayed to his inner circle. Among the nearly dozen reasons cited, AF expressed frustration with President Cristina Fernandez de Kirchner's (CFK) and her husband, former President Nestor Kirchner's (NK) inability to "to read" and act on events, noting they had a chance to make changes at zero cost but now the government has to pay a high price. He indicated that while the First Couple may believe he is "soft," he does not believe in permanent confrontation, which led them to squander the potential for a great administration. In describing his duties while serving as Cabinet Chief, he stated that he had to be a criminal lawyer, an agronomist engineer, and crisis negotiations broker all at once. He stressed, however, that "this is not the way I wanted to work." He also bemoaned the continuation of Transportation Secretary Ricardo Jaime, Commerce Secretary Guillermo Moreno, and Planning Minister Julio De Vido and suggested that his departure would be good for CFK's administration if it resulted in other exits and a broader overhaul of the

Cabinet. Although AF's July 23 resignation letter offered no specific reason for his departure, the press is speculating that there was another "private" letter to CFK that enumerated several policy differences. These allegedly include his unhappiness with the previous week's "re-nationalization" of Aerolineas Argentina (see Buenos Aires 0994), his concern about an impending confrontation with the powerful Clarin media group, the continuing manipulation of the official GOA statistics agency (INDEC), the GOA's much-criticized "bullet train" project, and the Kirchners' refusal to make peace with the agricultural sector. These comments have a ring of authenticity as we have heard similar remarks from him directly or indirectly in recent weeks.

13. (SBU) The Argentine press continues to speculate that there will be more resignations, despite GOA pronouncements to the contrary. Chief among the anticipated departures is Commerce Secretary Guillermo Moreno with calls for his exit coming from within the administration and externally, according to leading daily Clarin. Given Moreno's and De Vido's close ties to NK, however, firing either one of them will be difficult, as noted by Critica. Another rumor circulating among knowledgeable private sector contacts is that current Banco La Nacion President and true Kirchnerista Mercedes Marco del Pont will replace Carlos Fernandez as Economy Minister, and ex-Economy Minister and current President of state-owned BICE (Bank of External Investment and Commerce) Miguel Peirano will replace Marco del Pont at state-owned Banco La Nacion.

Wall Street' View: More of the Same

14. (SBU) With De Vido and Moreno still firmly in place, Wall Street analysts believe that AF's resignation will not change the K's penchant for heterodox economic policy and closed management style. Credit Suisse analysts note that although new cabinet chief Sergio Massa appears to share AF's more moderate views on economic management, he lacks the political stature to challenge NK, De Vido, and Moreno in order to influence policymaking. This has dampened Wall Street's economic forecasts for Argentina in the medium term. Merrill Lynch predicts the GOA will try to regain popularity by implementing expansionary measures, including a minimum wage increase of up to 22 percent. Citigroup believes that the GOA will try to muddle through with making as few changes as possible, hoping lower domestic interest rates and higher fiscal spending will sustain the now six-year long economic recovery and enable the GOA to regain its popular appeal. Goldman Sachs projects a scenario of significant economic slowdown and continued high inflation.

15. (SBU) Local analysts surveyed by the Economic Section hold similar opinions. Prominent Argentine Economist Carlos Melconian -- a perennial front runner for Economy Minister -- told Econoffs July 24 that Massa was a better selection than any of the other alternatives (e.g., Chaco Governor Jorge Capitanich and President of the Chamber of Deputies Eduardo Fellner), but he expects no significant changes to the Kirchner model. Melconian believes the resolution of the farm strike avoids an economic hard landing and recession. However, he predicts that "stagflation," 2-4% growth with 25% annual inflation, is likely in 2009, with increasing complications related to debt payments, wage negotiations, energy supply, and industrial competitiveness.

Massa's Calculus

16. (C) New cabinet chief Massa has not resigned but has requested a leave of absence as mayor of Tigre. Our contacts tell us that Massa reportedly explained to CFK that should he resign, Tigre would have to elect a new mayor and the PJ would almost certainly lose the mayorship. For the time

being, the head of the local sanitation council, Julio Zamora, is serving as acting mayor. Leading daily Clarin, however, notes that Massa has asked for "more breathing room" and speculates that Massa may be waiting for at least Moreno's resignation in order to give him more freedom to act. Some note that though Massa is young and dynamic, his effectiveness will be limited while NK remains behind the scenes. If he does not have freedom to maneuver, they predict his tenure as Cabinet Chief will be short-lived.

¶7. (C) On the positive side, in recent months, Massa reportedly has maintained good ties to "Radical K" leaders, including VP Cobos. La Nacion relays that radical Ks may be hoping that Massa can repair the strained relations between VP Cobos and CFK in the wake of Cobos' tie-breaking Senate vote against the government's tax proposal. Critica reports VP Cobos -- currently cut off from the President -- as pleased with Massa's nomination.

Comment

¶8. (C) Despite AF's stated desire that his resignation would pave the way for a Cabinet overhaul that would reinvigorate the CFK administration, his departure may have had the opposite effect of further entrenching the government. With AF's resignation, most Casa Rosada watchers believe the center of gravity within the CFK administration has shifted in favor of the hardliners, which include NK and AF's long-time rival, De Vido. With AF out of the way, De Vido's position and influence with the Kirchners is secure and will most likely grow. But others such as Senate President Pampuro (septel) tell us that more cabinet changes will come over time. Speculation also abounds on the future role of NK, who has stayed out of the limelight in recent days, taking a daytrip to Santa Cruz shortly after the Senate vote to attend the funeral of a provincial deputy and longtime friend. NK may well continue to maintain a low profile as CFK tries to salvage her political agenda, rebuild her image, and restore confidence that she is the one in charge. This will be tough to do, as NK has demonstrated that he continues to wield tremendous power publicly and behind-the-scenes, and as the deteriorating economy limits CFK's ability to increase

spending to win back the political support of poor and lower-middle class voters.

WAYNE